This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000430

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
USPACOM FOR FPA

E.O. 12958: DECL: 04/06/2013
TAGS: EFIN ECON PGOV BM
SUBJECT: WILL BURMA'S BANKS SURVIVE? SIGNS POINT TO NO

REF: RANGOON 365 AND PREVIOUS

Classified By: COM Carmen Martinez for Reasons 1.5 (B,D)

¶1. (C) Summary: Another payday passed without incident on March 31, but that does not mean that all is well in Burma. The banking crisis continues grimly on, with increasing negative spillover into the general economy. Though bankers, borrowers, and businesses are begging for mercy, government policies have thus far only exacerbated the pain. The GOB's objective is uncertain; it may simply want to clear out some bad banking operations. Alternatively, it may be aiming for some more general government takeover of the private banking sector. End summary.

All Quiet on the Industrial Front

¶2. (C) Another payday came and went on March 31 without disturbance. Industrialists and bankers with whom we spoke said that for the most part workers were paid at least part of their salary through a patchwork of short term measures. Those with a steady income (such as garment exporters) had no problem, others continued selling off dollars or other assets (at depressed prices) and/or borrowing privately from cash-rich firms to make ends meet. In other cases factory owners had to beg forbearance from workers, extending only 25-50 percent of employee salaries. Some bankers reportedly tried to open their coffers to large private corporate customers to help them meet their responsibilities, but were rejected by the GOB's banking "oversight" committee, the Private Bank Management Committee.

¶3. (C) All were adamant, though, that another peaceful payday is no indication that the banking crisis is resolved or that the economy is back on track. Private banks are still restricted by fiat from offering more than 100,000 kyat (about $110 at current rates) per week to each depositor. As a result, kyats remain in short supply as businesses and others hoard whatever kyat they have pending a return of economic confidence and liquidity to the market. Reflecting this, the kyat/dollar rate has settled at about 900, despite a brief uptick in dollar value in the week ending March 21st due to the government's biannual international gem auction.

Bankers or Victims?

¶4. (C) The regime's major policy thrust continues to be forcing borrowers to repay 40 percent of their outstanding loans by April 30. In only the second GOB statement on the banking situation since it began, Secretary One, General Khin Nyunt, told the Union of Myanmar Chamber of Commerce and Industry on March 29, "in consideration of those who had deposited money in the banks, in the long-term interests of the banks, and to strengthen the national economy, those who have taken loans from the banks should try to repay the debts speedily." Bankers report that they, with assistance from Military Intelligence, have been somewhat successful in getting borrowers to return money, but that not all companies are able to meet the requirement. However, bankers assert, this approach is killing their customers. It may help settle their obligations to depositors, but in the end, banks, businesses and individuals will all go under collectively. Corporate borrowers complain that the demand for loan repayment, the lack of new credit, and the general economic doldrums, have frozen their production and eroded profits.

¶5. (C) On top of this, according to several bankers, some of the private banks are no longer accepting new deposits. It is unclear whether this is due to a new directive from the Committee, or whether private banks are interpreting broadly a previous order to cease offering so-called "special deposits" (deposits whose total value the banks would guarantee). Whatever the case, while loan repayments will keep up with demand for withdrawals for now, a cut-off of new deposits, combined with existing prohibitions on extending new credit, will slowly starve the banks to death.

¶6. (C) Though the origin of this new policy is debatable, bankers and economists are predictably blaming the government. They argue that the SPDC is intentionally softening up the largest private banks for future liquidation

or merger with either a government bank (namely Myanmar Economic Bank) or one of the two military-run banks (Innwa Bank and Myawaddy Bank). The rumor mill's money is on the relatively young and agile Innwa Bank (run by the Myanmar Economic Corporation (MEC)) as MEC's Chairman, Quartermaster General Lieutenant General Tin Aung Myint Oo, is now in charge of the Private Bank Management Committee. Experts estimate that at current rates of repayment and withdrawals, private banks can last another one to six months before they go under.

GOB's Rose-Tinted Glasses

¶7. (C) Though the current economic problems are clear to economists, bankers, and businesspeople, the GOB sees it differently. The new Minister of Finance (a general whose previous area of concern was ordnance production) recently told one highly placed source that the strengthening kyat, deflation of the asset bubbles, and the stabilization or decline of prices of many consumer goods prove that the GOB's response to the banking situation has been just what the doctor ordered. Bankers tell us that this same "tough love" sentiment pervades nightly Private Bank Management Committee sessions.

The Blame Game Continues

¶8. (C) The government's position has always been that private bankers got themselves into this mess and can damn well get themselves back out by calling in the speculative investments and insider loans that seem to have characterized private banking in Burma. In econspeak, one might say that the government is sensitive to the moral hazard that would emerge from too precipitous a bailout of some of the larger private banks. Bankers themselves, of course, see things differently. They point to the antecedent conditions under which they were obliged to operate, while implicitly asking whether there was any other way to make money in banking when deposit and lending rates were capped at levels 5000 basis points below inflation. Both sides are of course right, just as both sides were originally wrong in their behavior. Right now, however, sorting out who was right and who was wrong is not nearly as important as containing the crisis' infection of the rest of the economy.

¶9. (C) The fact is, however, that the government's approach has thus far only worsened the liquidity crunch. While the regime's actions have produced some unintended benefits in reducing general inflation and popping the asset price bubbles that had grown up in recent years, it has also placed most businesses under extraordinary pressures. So far, the government seems to believe that only a few of the largest private banks will go down, when all is said and done, and that state and military-owned banks will be able to pick up the slack. However, there are no firewalls between the private banks and the government-run institutions. Moreover, government-owned banks will almost certainly be far less inclined than their private sector competitors to seek out non-government borrowers, depositors, and business opportunities. While the economy could undoubtedly do with a more restrained credit-generation machine, an expansion of the government banking sector will most certainly chill the overall economic environment, push more of the economy underground, and set back Burma's meager economic development.

¶10. (C) In short, the government here is playing a high-risk game. It may be right. We haven't seen the loan books of any of these banks, and can't really say if the GOB is justified in coming down on them so hard. However, we can be certain that if the regime is wrong, the entire Burmese economy will pay a heavy price for the SPDC's mistakes.
Martinez